December 2017

Regional Roundup

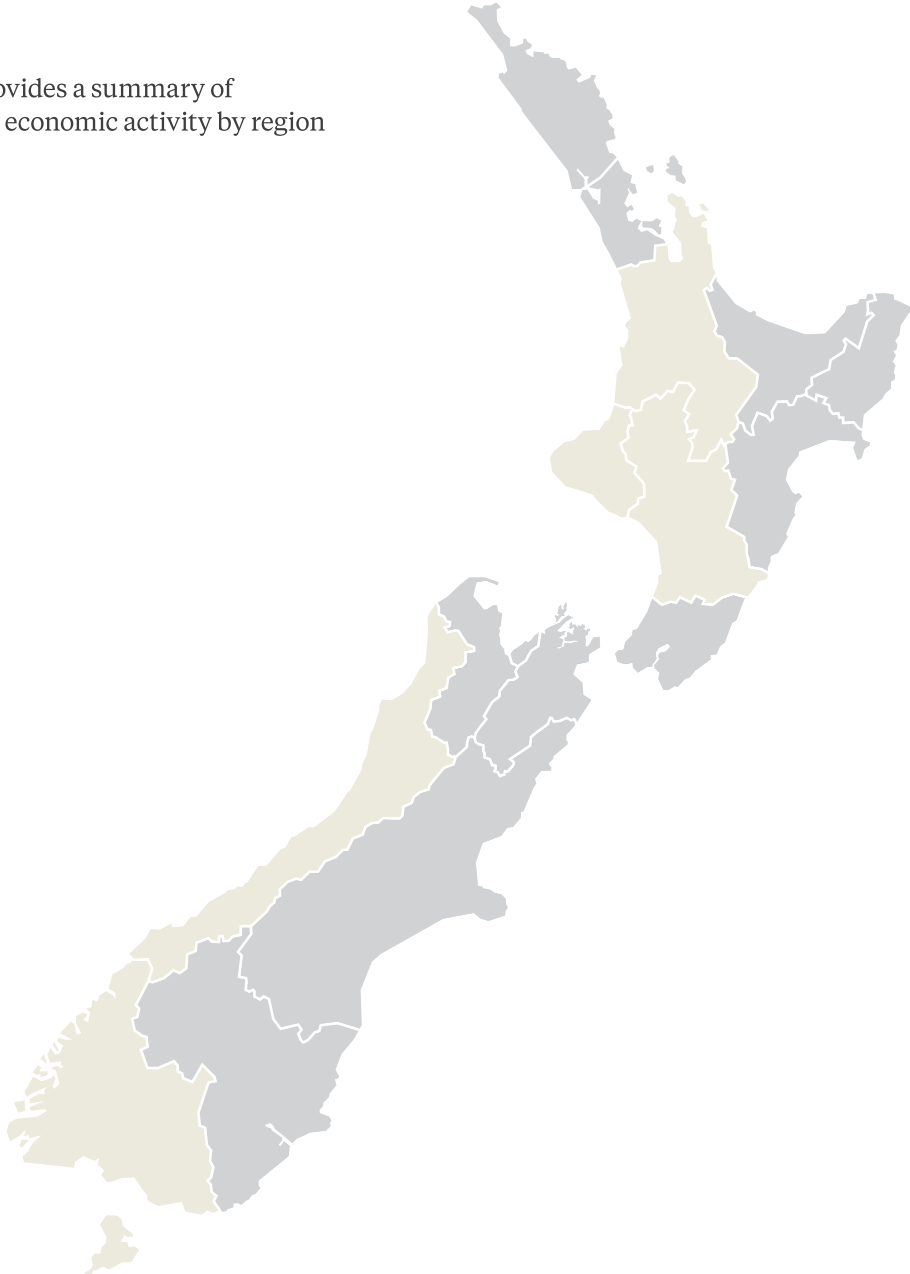
12-month regional outlook

This shaded map provides a summary of expected changes in economic activity by region over the next year.

Regional outlook

Stronger

Weaker



REGIONAL ROUNDUP

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Summary

Economic conditions across the regions have deteriorated in the latest quarter, although they are much improved from a year ago. Looking ahead, economic activity in most regions is likely to slow, more so in some rural regions than the urban centres.

While overall economic activity has eased, this is not true for all regions. Activity in Canterbury improved in the latest quarter compared to last. The same can be said for Otago, Southland and Taranaki/Manawatu-Whanganui, although not to the same extent. By contrast, activity in the three regions that neighbour Auckland - Northland, Waikato and the Bay of Plenty – experienced large deteriorations during the quarter. Activity levels in Auckland and Wellington were slightly down in the latest quarter.

This has come against a backdrop of strong migration-led population gains which boosted domestic spending in all regions and added to demand for both rental and owner-occupied housing. However, as the housing market has softened over the past year, retail spending has slowed in many regions.

Regions with a strong rural backbone, such as the Waikato and Southland, have seen sharp declines in surveyed confidence levels, possibly reflecting concerns about the change in government. This could manifest in slower economic activity in these regions in coming quarters.

Looking forward, economic activity in most regions is likely to slow. Some regions are still likely to perform relatively well but not at levels previously seen. The key drivers are likely to be a fall in net migration, a slower housing market and a drop in agricultural confidence. Tourism is expected to be a major offsetting positive for many regions.

Lower net migration is likely to have a significant impact on the regions over the next couple of years. Not only will it remove the “easy” source of demand growth that businesses have been able tap into in recent years, it will also reinforce a slower housing market and over time dampen demand for construction. Construction will remain strong in Auckland where there is a significant shortage of housing, and to a lesser extent, Wellington. However, in other regions where shortages do not exist, slower population growth could lead to a reduction in construction activity in coming years.

Recently, housing markets in Northland, Auckland, Waikato and the Bay of Plenty have been recovering from their earlier downturn. By contrast, housing markets in central and southern regions are still in the slowdown phase. We expect that in 2018, housing markets across the country will slow with the downturn possibly being most pronounced in Auckland. Importantly, housing markets will be affected by rising fixed mortgage rates and new government policies such as the extension of the 2-year “bright line” test to 5 years for taxing capital gains, the removal of negative gearing and a ban on foreign buyers.

Agricultural regions will also feel the effects of a modest downturn in prices for key commodities. Recent dry weather is a further risk to activity in rural regions, especially those with less irrigation such as Southland and Taranaki. That said, some areas of agriculture such as horticulture are likely to continue to benefit from higher prices which should support activity in producing regions such as the Bay of Plenty.

The possibility of agriculture being included in a widened emissions trading scheme, water pricing issues, and the possible future adoption of a capital gains tax is likely to further erode confidence in rural areas. There has been a notable increase in farms going up for sale in key dairy producing regions and an equally notable absence of buyers. This suggests that farm prices might be about to fall. If they do, economic activity in these regions is likely to take a knock.

Regional tourism could provide some positivity. Slower domestic growth and a weaker New Zealand dollar could prompt New Zealanders who normally travel overseas to look at cheaper alternatives at home. While this is likely to be positive for all regions, the biggest beneficiaries are expected to be those that traditionally rely more on domestic tourists, such as the Bay of Plenty and Gisborne/Hawkes Bay. Further gains could be made as an improving global economic climate and a weakening New Zealand dollar makes the country a more attractive destination to foreign tourists. Regions likely to benefit the most are Auckland, Otago, Southland and Canterbury.

Understanding the regional pages

This report examines each region's performances in the latest quarter compared with the previous quarter and the five-year average across a set of indicators.

A net score is included for each comparison period. A score greater than zero means more indicators have improved in the latest quarter than in the period of comparison. A score below zero means that results in the latest quarter have, on aggregate been weaker than in the time period of comparison.

This assessment provides the basis for the analysis and discussion on the outlook for the next year. The outlook in turn is also influenced by forecasts produced in a number of other publications, not least of which is the quarterly economic outlook which can be accessed at: https://www.westpac.co.nz/wib/economic-updates/economic-research-and-strategy/

Auckland

Economic conditions in Auckland deteriorated slightly in the latest quarter. However, activity in the region is much improved from a year ago and compares favourably with the 5-year average. A further deterioration in activity levels can be expected in coming quarters.

		Compared to	
Auckland	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	8.1	1.6	18.4
Regional employment confidence	119.8	117.2	109.0
Unemployment rate (s.a.)	4.7%	4.7%	5.6%
Retail sales ($m, s.a.)	8,371	8,307	7,267
Passenger vehicle regos (s.a.)	31,808	31,929	27,119
Commercial vehicle regos (s.a.)	6,264	6,436	4,656
Guest nights (000, s.a.)	1,819	1,907	1,772
New dwellings consented (s.a.)	2,664	2,652	2,066
House sales (s.a.)	5,213	5,496	7,250
House price change, annual (s.a.)	0.8%	16.5%	12.2%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			4

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

Despite the overall deterioration in the latest quarter, there were some positives such as slightly more households feeling positive about the region's economic prospects than before. Strong employment gains have also made households feel more confident about their employment prospects, more so than any other region in New Zealand. This is likely to have supported spending in the region.

The housing market was one of the negatives during the latest quarter. Sales were down as sellers were put off by slowing prices, while buyers stayed away amid growing uncertainties related to the elections. House prices were marginally up and remain close to record levels, while consents for new dwellings went sideways, despite ongoing population pressures and an acute shortage of housing.

Further illustrating the subdued mood, there was a decline in new vehicle registrations – a leading indicator that suggests that the regional economy may well pause for breath in the not too distant future. The tourism sector also dropped a bit with a decline in quest nights, although that probably reflects a "return to trend" after the Lions rugby tour in the June quarter.

The outlook for the region

The Auckland regional economy is likely to take a breather over the coming year. House prices in the region are likely to fall as interest rates rise, migration outflows pick up and new government policies affecting the housing market come into play. These include the extension of the 2-year "bright line" test to 5 years for taxing capital gains, the removal of negative gearing and a ban on foreign buyers. Softer house prices and lower wealth effects are likely to be reflected in lower spending which will have a ripple effect through the regional economy. An already overvalued housing market means that Auckland is particularly vulnerable to this type of retracement.

Construction activity is expected to continue to increase with significant residential and non-residential works in the pipeline. However, growth is likely to be more gradual than before because of increasing capacity constraints, especially shortages of skilled labour and difficulty accessing finance.

One bright spot could be tourism. This region has traditionally been regarded as a gateway to other regions. However it is now a tourist destination in its own right and should, given forecasts of firming global economic conditions and a slightly weaker New Zealand dollar, benefit from continued growth in foreign arrivals. Domestic tourism, which accounts for about half of guest nights in the region, could also improve if, as expected, domestic spending in New Zealand slows and more Kiwis are put off going offshore for their holidays because of a weaker currency.

Bay of Plenty

Economic conditions in the Bay of Plenty have worsened considerably in the last quarter. That said, activity in the region is still firmer than a year ago and compares favourably with the 5-year average. Further weakness can be expected in the coming quarters.

		Compared to	
Bay of Plenty	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	36.6	42.1	25.5
Regional employment confidence	109.8	113.6	103.7
Unemployment rate (s.a.)	4.9%	6.3%	6.2%
Retail sales ($m, s.a.)	1,399	1,408	1,233
Passenger vehicle regos (s.a.)	3,626	3,621	2,846
Commercial vehicle regos (s.a.)	1,058	1,181	739
Guest nights (000, s.a.)	983	986	866
New dwellings consented (s.a.)	681	638	454
House sales (s.a.) *	1,260	1,303	1,372
House price change, annual (s.a.)	9.0%	38.0%	9.4%
Net number of indicators rising compared to previous quarter			-4
Net number of indicators rising compared to 5 year average			6

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV
* House sales data includes Bay of Plenty and Waikato

Households in the region are still among the most positive in the country about their future prospects, although confidence levels have started to edge lower. A ratcheting down in house prices, fewer house sales, possible election jitters and concerns over future earnings growth are likely to have been key factors at play here.

It could have been worse had it not been for the impact of higher commodity prices on the forestry and agricultural sectors, and the success of horticulture. The residential building sector has also ramped up with an increase in residential building consents - mostly houses to address the needs of a growing population, but also retirement village units catering for an increase in the number of older people either already in or moving to the region. Increased activity in these industries has contributed to falling rates of unemployment and higher employment numbers.

Other indicators suggest activity levels have softened. After an extended period of growth, retail sales have slowed, probably a direct consequence of the downturn in the housing market, which affects household wealth. The same applies to guest nights, with both international and domestic guest nights having come off recent highs. The registration of new passenger vehicles has also moved sideways after a period of sustained growth, while commercial vehicle purchases have fallen.

The outlook for the region

This region, like much of the country, is set for a slowdown. The likely impact of a cooling housing market on spending will be key to this. As house prices soften and turn negative, it is expected that spending in the region will moderate. An expected slowdown in population growth will dampen construction activity and have a knock-on effect along the value chain.

The performance of the region's forestry and agricultural sectors may be adversely affected by an expected weakening in global log, dairy, lamb and beef prices. However, given our forecasts for strong horticultural returns and a lower New Zealand dollar, impacts are likely to be less than they might have been. Weaker conditions should translate into softer consumer spending.

Another factor likely to affect the agricultural sector in the region is government policy. The possible future inclusion of the sector within a widened emissions trading scheme, uncertainties over water pricing and the possible introduction of a capital gains tax at a later stage could lead to lower land prices for farms. This would have a negative effect on confidence and spending in the region.

Regional tourism may provide some positivity. The local tourism industry depends more heavily on domestic tourists than most other regions in the country. Should the New Zealand economy slow as expected, there is a reasonable possibility that some Kiwis who might have opted to go abroad for their holidays will find that Tauranga and Rotorua are more cost effective holidaying options, especially with a lower exchange rate.

Canterbury

In contrast to most other regions, activity in Canterbury is on the up, with most indicators of activity firming in the latest quarter. Activity in the region is also up on the same period last year and sits comfortably ahead of the 5 year average. However, as the rebuild winds down, the pace of growth in Canterbury will slow.

Canterbury	Latest Quarter	Compared to Previous Quarter	5 Year Average
Regional economic confidence	43.9	28.9	37.9
Regional employment confidence	115.2	113.9	113.0
Unemployment rate (s.a.)	3.3%	3.9%	3.5%
Retail sales ($m, s.a.)	2,940	2,925	2,763
Passenger vehicle regos (s.a.)	10,059	9,892	8,541
Commercial vehicle regos (s.a.)	2,031	1,936	1,604
Guest nights (000, s.a.)	1,324	1,298	1,198
New dwellings consented (s.a.)	1,395	1,210	1,482
House sales (s.a.)	2,330	2,492	2,527
House price change, annual (s.a.)	0.4%	5.8%	4.6%
Net number of indicators rising compared to previous quarter			6
Net number of indicators rising compared to 5 year average			4

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

As reported in our Bulletin on regional economic confidence in September, households in Canterbury are among the most optimistic in the country, having benefitted from a broadening of economy activity, an increase in tourism numbers, rising dairy prices and an inflow of migrants, all of which have helped to create a sense of vibrancy in the area.

This sense of vibrancy is reflected in the growth of the manufacturing and services sectors, both of which have traditionally been key drivers of regional economic activity in the region. As a result of this growth, unemployment in the region sits well below the national average. However, difficulties in finding skilled and unskilled labour in the region remains a constraint on growth and this is likely to be a key reason why manufacturing and services sector activity grew more slowly in the latest quarter.

The dynamism of the region is also seen in the growth in spending in the region. Supported by strong population growth, retail sales have continued to climb. New passenger vehicle registrations has also increased while improving firm profitability has led to an increase in the number of commercial vehicles being registered.

While construction activity is starting to tail off, residential building activity remains relatively robust with building consents having flattened off at firmer levels in recent months. This is in contrast to the long-term declining trend in consents. An increase in the supply of housing is likely to be one reason why house prices have softened and rents are in decline.

The outlook for the region

As the rebuild continues to wind down, the drivers of growth in Canterbury are rotating back to traditional sectors. As construction activity comes off, unemployment rates should start to converge closer to the national average.

Key will be the performance of the manufacturing sector, particularly those manufacturers in the region that produce food, fabricated metal products and plastic products. All are expected to be affected by a slowdown in construction activity. They are also likely to affected by an expected slowdown in the economy overall, but this may be mitigated by improved export volumes, bolstered by a firming global economic recovery and a weakening New Zealand dollar.

These factors are also likely to affect the services sector to some extent. Activity here should helped by more firms setting up stall in a largely re-built city centre as well as continued population growth. A newly re-built Christchurch could also see an increase in tourism numbers, with most of these coming from within rather than outside of New Zealand.

On balance, these factors are likely to slow spending in the region. Lower forecast dairy prices are also likely to reinforce this trend. As a result, growth in retail sales can be expected to moderate while the number of new passenger and commercial vehicles being registered slows.

Gisborne/Hawke's Bay

Conditions in Gisborne and the Hawke's Bay remain largely unchanged. There were slightly more negative than positive indicators for this quarter. Activity in the region is well up on the same period last year and far better than the 5 year average. Further weakness is expected in the coming quarters.

Gisborne/Hawke's Bay	Latest Quarter	Compared to Previous Quarter	5 Year Average
Regional economic confidence	22.7	33.9	16.3
Regional employment confidence	105.7	111.0	101.2
Unemployment rate (s.a.)	9.0%	6.8%	7.3%
Retail sales ($m, s.a.)	868	844	761
Passenger vehicle regos (s.a.)	1,964	1,809	1,484
Commercial vehicle regos (s.a.)	665	667	474
Guest nights (000, s.a.)	396	391	328
New dwellings consented (s.a.)	194	173	122
House sales (s.a.)	765	813	736
House price change, annual (s.a.)	17.8%	31.6%	7.4%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			8

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

Households in the Gisborne and Hawke's Bay regions are less confident than they were about the economic outlook for their region as well as their own employment prospects. This is partly reflected in the rate of unemployment, which is not only the highest in the country, but also, in contrast to many other regions in New Zealand, significantly higher than what it was in the previous quarter. It also reflects growing concerns about labour market conditions and earnings potential, especially for workers in the horticulture, viticulture and forestry industries, which are key employers in the region.

At first glance, this lack of confidence is not really reflected in the indicators. Retail sales are sharply up, particularly in the Hawke's Bay, commercial vehicle registrations are flat and new passenger vehicle sales are on the rise. The increase in retail spending can probably be explained by increasing tourism numbers and the lingering effects of rising house prices earlier in the year. A closer look at commercial vehicle registrations shows that monthly numbers are starting to show some weakness.

The large increase in passenger vehicle registrations is more difficult to explain. Typically, they should fall if confidence is low. However, given that most passenger vehicles in New Zealand are fleet purchases, it could be that the increases are due to purchases by car rental companies servicing the tourism market.

The other positive for the region was an increase in residential building consents, which was concentrated in the Hawke's Bay. Home building in the Gisborne region has slowed recently, but has continued to perform strongly in the Hawke's Bay. House prices slowed in the quarter as prospective buyers responded to the cumulative effect of large price increases and any pre-election jitters which might have dissuaded prospective buyers.

The outlook for the region

The evidence suggests that the region has reached a tipping point and that activity is set to ease over the near term.

That said, horticulture and viticulture, both of which have produced consistent gains over the past year, are expected to support regional economic activity. Forestry and livestock are likely to have the opposite effect as commodity prices for logs, lamb and beef move lower.

Similar to other rural regions, government policy is likely to weigh heavily on agriculture. Its possible inclusion within a broader emissions trading system, water pricing issues and the likelihood of a capital gains tax is likely to undermine regional confidence levels and could prompt some farmers to sell up.

The region is also expected to experience some tourism growth, particularly in the Hawke's Bay. The majority of this is likely to be domestic tourism, bolstered by fewer New Zealanders holidaying offshore. This is likely to support employment in the region, although probably not enough to offset possible job-losses in the agricultural sector.

Population growth is likely to slow as net inward migration falls. This should ease pressure on construction activity as well as house prices which have experienced strong growth in the recent past.

Nelson/Marlborough/West Coast

After an extended run, activity in these regions is starting to consolidate, with the balance of indicators on the negative side. Activity in the region is up on the same period last year and easily exceeds the 5 year average. Further weakness is expected in the coming quarters.

		Compared to	
Nelson/Marlborough/West Coast	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	29.8	50.2	24.7
Regional employment confidence	104.7	113.9	104.2
Unemployment rate (s.a.)	3.1%	2.8%	4.2%
Retail sales ($m, s.a.)	872	867	778
Passenger vehicle regos (s.a.)	1,726	1,751	1,374
Tractor regos (s.a.)	63	53	50
Guest nights (000, s.a.)	968	943	831
New dwellings consented (s.a.)	271	270	211
House sales (s.a.)	762	779	805
House price change, annual (s.a.)	10.5%	22.1%	5.6%
Net number of indicators rising compared to previous quarter			-2
Net number of indicators rising compared to 5 year average			8

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

Households within these regions are far less confident than they were about the regional economic outlook as well as their own employment prospects. Despite this, they still remain relatively upbeat, although most households are pessimistic about their prospects for wage rises, particularly in the dairy, wine, fruit growing, forestry, seafood and tourism industries, which are the major employers in the region.

That said, retail sales were up, albeit marginally, as declining retailing activity in Nelson was partly offset by continued growth in Marlborough and West Coast. A growing population coupled with an increase in tourist numbers is likely to have been a supporting factor. After falling substantially in the first half of 2017, tractor registrations have increased on the back of improved operating conditions in the agricultural sector. The opposite is true for new passenger vehicle registrations which, despite trending upwards, fell in the latest quarter.

New dwelling consents were essentially flat in the latest quarter, although the long-term trend is positive, and construction activity, particularly in Nelson and Marlborough, remains relatively buoyant. A growing population, supported by migration, has underpinned this trend. However, the number of houses sold has continued to track lower for a number of quarters while house price growth has halved after posting an extended run of good gains. Nelson was one of only two regions in New Zealand to experience house price declines during the latest quarter.

The outlook for the region

After having had a really strong run over the past year there are signs that regional activity has started to soften. The region is still expected to perform well although not at the pace previously seen.

Key drivers going forward are likely to be tourism growth (which is set to benefit from a relatively weak New Zealand dollar), stronger global growth and improved road and air links into the region. The wine industry is also likely to support the region's economy, and horticulture is expected to benefit from further prices gains as demand in key export markets grow. Other sectors, such as forestry, are likely to experience a downturn in fortunes, mostly as a result of weaker demand in Asia for logs. However, the impact this has on the sector will be partially be absorbed by a weaker New Zealand dollar. On balance, unemployment is expected to tick up from current levels.

Closer to home, population growth is expected to slow as net migration turns and this should put a dampener on spending. However, with tourism in the area likely to remain strong, retail sales should continue to grow, albeit at a slower pace than before. Slowing population growth is also likely to have implications for building consents which should continue to come off, eventually feeding through to weaker construction activity at a later date.

Northland

After posting strong gains in recent quarters, activity in Northland looks to have peaked with significantly more indicators posting negative results than positive ones in the latest quarter. Similar to other rural regions, activity in the Northland region is up on the same period last year and easily exceeds the 5 year average. However, weakness in the coming quarters is expected.

		Compared to	
Northland	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	17.0	22.8	-6.5
Regional employment confidence	110.0	106.8	101.3
Unemployment rate (s.a.)	6.1%	7.3%	7.9%
Retail sales ($m, s.a.)	686	694	606
Passenger vehicle regos (s.a.)	1,471	1,540	1,175
Commercial vehicle regos (s.a.)	535	581	410
Guest nights (000, s.a.)	491	496	438
New dwellings consented (s.a.)	310	343	224
House sales (s.a.)	600	588	616
House price change, annual (s.a.)	13.4%	34.8%	8.1%
Net number of indicators rising compared to previous quarter			-4
Net number of indicators rising compared to 5 year average			8

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

Households in Northland are more confident about their employment prospects and are less pessimistic about their future earnings growth than most other rural regions in New Zealand. This might be due to a declining rate of unemployment, which despite being higher than the national average, has trended downwards over a number of quarters. The number of job ads in newsprint has also increased over the period. For the most part this is due to a strong performance from the region's tourism, construction and manufacturing sectors. Previously higher export prices for logs and dairy products have also supported primary sector activity and employment growth.

Northlanders are, however, slightly less optimistic about their region's economic outlook over the next 12 months. This is reflected in a number of indicators which suggest that the region has already moved into a slower phase, with less growth likely in the future. After a sustained period of growth, retail sales slowed despite there being more people employed in the region. A hesitancy to purchase could reflect the slight decline in overall consumer confidence reported on in our earlier Bulletin on regional economic confidence. It could also have something to do with a fall in tourist numbers, and a concomitant drop in guest nights. But mainly, we think it reflects the slowing housing market.

This weakness is also captured by declines in the number of new passenger and commercial vehicle registrations. The registration of new tractors in the region has fallen for each of the last 3 quarters, while residential building consents have slowed after having increased over quite a few quarters. In contrast to most regions in New Zealand, the number of house sales actually increased in the latest quarter, although like most other northern regions, house price growth has slowed dramatically.

The outlook for the region

The region is expected to experience slower growth going forward.

The performance of the region's agricultural sector is likely to be adversely affected by an expected weakening in log, dairy, lamb and beef prices. However, given our forecasts of a lower New Zealand dollar, the impact of weaker prices on spending is likely to be small. The impact on unemployment is likely to be even less significant.

As for other rural regions, government policy is likely to weigh heavily on rural confidence. The possible future inclusion of the sector within a widened emissions trading scheme, uncertainties over water pricing and the possible introduction of a capital gains tax at a later stage could lead to an erosion of confidence in the region. This could result in an increase in farm sales and possibly lower farm prices. If this happens, spending in the region is likely to be adversely affected.

The region is also likely to be affected by slower population growth as net migration falls. This is likely to mean a decline in residential building activity, which is already showing signs of softness given an easing in consents and a continued moderation in house prices. This in turn is likely to limit growth in spending, which will affect retail sales. It's also likely to lead to a reduction in the number of cars and commercial vehicles being registered.

Offsetting this could be more civil construction activity following the new government's announcement that it intends to build a rail spur at Marsden Point near North Port, as well as invest in upgraded rail tracks from Auckland to Northland. This should help boost the productive side of the regional economy by allowing easier access to markets.

Another possible area of growth in tourism. Slower domestic growth and a depreciating New Zealand dollar could prompt people that would normally travel overseas to look at more cost effective holidays at home, while a firming global economic environment might entice more people from overseas to the region.

Otago

In contrast to most other regions in New Zealand, activity levels in Otago are improving with indicators showing more positive than negative results. Activity in the region is also slightly better than the same period last year and is significantly better than the 5 year average. However, this is unlikely to continue for much longer.

Otago	Latest Quarter	Compared to Previous Quarter	5 Year Average
Regional economic confidence	20.0	24.2	11.7
Regional employment confidence	108.9	103.6	101.1
Unemployment rate (s.a.)	4.2%	4.8%	4.2%
Retail sales ($m, s.a.)	1,285	1,266	1,129
Passenger vehicle regos (s.a.)	2,223	2,169	1,753
Commercial vehicle regos (s.a.)	753	748	529
Guest nights (000, s.a.)	1,494	1,537	1,353
New dwellings consented (s.a.)	612	501	370
House sales (s.a.)	1,083	1,152	1,142
House price change, annual (s.a.)	14.2%	34.7%	9.2%
Net number of indicators rising compared to previous quarter			2
Net number of indicators rising compared to 5 year average			7

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

Households in Otago remain confident about their region's economic prospects and despite a slight pullback in the latest quarter are still positive about their own financial circumstances looking a year out. They are also more confident about their employment prospects and although there is some concern about future wage growth, this is less pronounced than for other regions.

This confident outlook is reflected in growth in spending. Retail sales are up, in part because of strong population growth, helped by net migration gains. They are also higher because of falling unemployment rates on the back of a record tourism season, especially in Queenstown. Guest nights are down, but this may simply reflect Queenstown receiving an extra boost to tourist numbers during the Lion's rugby tour.

Investment has also increased with both new passenger and commercial vehicle registrations continuing to rise. This largely reflects aforementioned population gains, growing business confidence levels prior to the election and higher commodity prices which had boosted the fortunes of the local agriculture and forestry sectors. An increased propensity to invest is also reflected in the number of dwellings consented, continuing a well-established long-term upward trend.

The largest negative for the region has been the housing market. In line with national trends, the number of house sales has contracted and price gains have slowed sharply.

The outlook for the region

Economic activity in Otago is expected to slow as population growth in the region pulls back from current elevated levels.

A slowing population will affect growth in spending and construction activity. A slower housing market will also weigh on the willingness of households to spend. That said, continued growth in tourism should give retail sales a bit of a boost over the summer months, although it's not clear how capacity constraints at the region's tourist spots might limit this impact.

The agricultural and forestry sectors are expected to experience some headwinds over the coming months, given lower forecast prices for logs, beef and lamb. That said these are likely to be offset by higher horticultural prices which should support farm incomes.

As for other rural regions, government policy is likely to weigh heavily on agriculture. The possible future inclusion of the sector within a widened emissions trading scheme, uncertainties over water pricing and the possible introduction of a capital gains tax at a later stage could lead to an erosion of confidence in the region. This is likely to worsen if the recent bout of dry weather in the region affects production levels. A potential increase in farm sales and possibly lower farm prices would adversely affect spending in the region.

On the positive side, government initiatives to make tertiary education free to first year students is likely to support enrolment numbers at Otago's prominent educational institutions and this might have a small positive spin-off for retailers in Dunedin.

Southland

After posting a strong performance over the past year, activity levels in Southland have started to moderate and are now only marginally better than they were in the previous quarter. They are, however, much better than they were a year ago and remain comfortably ahead of the 5 year average. Like most regions, a slowdown is in the offing.

		Compared to	
Southland	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	44.9	39.4	17.8
Regional employment confidence	115.4	110.3	104.6
Unemployment rate (s.a.)	4.9%	4.6%	4.4%
Retail sales ($m, s.a.)	457	458	418
Passenger vehicle regos (s.a.)	901	864	700
Tractor regos (s.a.)	88	60	75
Guest nights (000, s.a.)	271	289	235
New dwellings consented (s.a.)	56	55	55
House sales (s.a.)	444	459	466
House price change, annual (s.a.)	9.2%	16.4%	3.7%
Net number of indicators rising compared to previous quarter			1
Net number of indicators rising compared to 5 year average			6

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

Households in Southland are the most optimistic in the country about their economic outlook for the region. They are also very confident about their own employment prospects. However, like other rural regions, they are not particularly confident about their own financial circumstances and this might have something to do with concerns about future wage growth. Southland is one of the regions where a large number of wage earners do not expect an increase in wages over the next year.

Concerns about financial circumstances are also likely to have something to do with what has been happening to commodity prices. Southland is highly exposed to dairy and lamb farming, so price movements are important. After having shown earlier strength, the prices of these commodities have started to weaken, and this together with a slight pick-up in unemployment is likely to have contributed to a growing sense of unease. This is despite the fact that horticultural prices have been increasing.

Falling guest nights are also likely to have been an issue, although on annualised basis the region has benefitted from a significant pickup in international tourists, more than offsetting a fall in New Zealanders visiting the region. Growth in international tourists is likely to reflect capacity constraints at tourism hotspots in neighbouring Otago.

Other demand side indicators reflect a more positive picture, although this is probably due to the previous strength in commodity prices. After trending downwards for an extended period, tractor purchases have risen sharply, while both passenger and commercial vehicle registrations have grown strongly.

Meanwhile, residential building consents came in flat. The housing market in Southland reflects a similar picture to most other regions, with declining sales volumes and sharply slower house price growth.

The outlook for the region

With further price weakness forecast for many of the agricultural commodities that Southland produces, it's likely that there are leaner times ahead for the region. This, coupled with further softness in the housing market should mean a more cautious approach to spending, which is likely to translate into weaker retail sales.

The dry conditions seen in Southland recently could have negative implications for agriculture, potentially curbing production volumes and possibly raising input costs. Declining revenues are likely to further dampen spending.

As for other rural regions, government policy is likely to weigh heavily on agriculture. The possible inclusion of agriculture with a broader emissions trading system, water pricing issues and the likelihood of a capital gains tax is likely to undermine regional confidence levels and could prompt some farmers to sell up. We have noticed a plethora of farms for sale and few buyers in the market, which might be a sign of lower farm prices ahead. That would be another blow to sentiment in the region.

On a more positive note, the tourism sector could well make gains as an improving global economic climate and a weakening New Zealand dollar make New Zealand an even more attractive tourist destination. Like most regions, Southland is likely to be a beneficiary of these flows and this could provide some offset against weaker spending by locals.

Taranaki/Manawatu-Whanganui

After posting a reasonably strong performance over the past year, activity levels have started to moderate with slightly more positive than negative indicators. Activity in the region is a lot better than the same period last year and achieves a perfect 10-score when compared to the 5 year average. That said, activity in the region is expected to continue to moderate from current levels.

		Compared to	
Taranaki/Manawatu-Whanganui	**Latest Quarter**	**Previous Quarter**	**5 Year Average**
Regional economic confidence	22.6	42.6	16.9
Regional employment confidence	111.4	107.7	101.3
Unemployment rate (s.a.)	5.8%	4.9%	6.1%
Retail sales ($m, s.a.)	1,459	1,440	1,344
Passenger vehicle regos (s.a.)	3,565	3,469	2,864
Tractor regos (s.a.)	94	77	90
Guest nights (000, s.a.)	479	499	448
New dwellings consented (s.a.)	394	373	277
House sales (s.a.)	1,551	1,548	1,453
House price change, annual (s.a.)	10.8%	20.8%	5.4%
Net number of indicators rising compared to previous quarter			1
Net number of indicators rising compared to 5 year average			10

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

While there has been some deterioration in confidence, households remain optimistic about the region's economic outlook. Previously weaker conditions in the oil and gas industry in Taranaki, a slowdown in house sales and pre-election nervousness seem to have weighed heavily in this regard. They are also more confident about their employment prospects, but are still worried about wage growth going forward. This is probably the reason why consumer confidence in the region was less than what it was in previous quarters.

Despite a marginally positive set of indicators, activity in the region is still strong with sectors such as forestry and agriculture having previously benefitted from higher commodity prices for logs, meat, dairy and horticulture products. With the exception of horticulture, these sectors are now starting to feel the effects of falling commodity prices. A recent pickup in crude oil prices has contributed to improved levels of activity in the oil and gas sector, as well as in associated manufacturing and engineering industries, although this does come after a period of lower prices which had resulted in a number of firms having to close their doors.

The region has also benefited from an increase in population with net migration being a key factor. This has added significantly to household spending, retail sales and construction activity. It's also likely to have boosted car registrations.

Tourism will also have helped retail sales, although growth in visitor numbers, mostly domestic tourists, has generally underperformed relative to other regions. Guest nights fell in the most recent quarter, possibly because the region received extra tourists during the Lion's rugby tour in the previous quarter.

Residential building consents have shown sustained growth, especially in the Manawatu-Whanganui region. However, this has not been the case for non-residential buildings which have shown a declining trend.

The housing market has also softened. Unlike most other regions, the number of house sales has remained relatively flat. However, like the rest of New Zealand house price growth has fallen significantly.

The outlook for the region

Easing house prices, slowing population growth and lower prices for crude oil as well as for a number of agricultural commodities are likely to result in lower spending and less economic activity in the region.

Slowing population growth and lower house prices in particular are likely to cap growth in residential building consents going forward. This means that residential construction activity is likely to slow in the region. It's also likely to mean a pullback in vehicles being registered.

There is a possibility that tourism might come to the rescue. Forecasts of a slightly weaker New Zealand dollar and fairly buoyant global economic conditions abroad are likely mean more visitors from abroad and some of these could find their way to this region. Furthermore, easing domestic conditions may be enough to persuade Kiwis who might have gone overseas for their holidays to stay at home and tour locally.

The region might also benefit from a new government policy initiative to make the first year of tertiary education free of charge. Enrolment at education providers in the region have been declining for some years now, so this initiative may reverse the trend and support the local economy.

Waikato

Conditions in the Waikato have deteriorated significantly in the latest quarter with far more negative results than positive ones. It's the worst performer out all the regions covered in this report. Activity in the region is still slightly better than same period last year and a bit better than the 5 year average. Indications are that activity in this region is set to ease further.

		Compared to	
Waikato	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	6.0	32.0	17.3
Regional employment confidence	114.9	121.0	104.5
Unemployment rate (s.a.)	4.0%	4.4%	5.3%
Retail sales ($m, s.a.)	2,016	2,048	1,788
Passenger vehicle regos (s.a.)	4,891	4,982	4,035
Commercial vehicle regos (s.a.)	1,565	1,558	1,184
Guest nights (000, s.a.)	838	871	784
New dwellings consented (s.a.)	947	877	702
House sales (s.a.) *	1,739	1,958	2,010
House price change, annual (s.a.)	10.6%	35.2%	9.3%
Net number of indicators rising compared to previous quarter			-5
Net number of indicators rising compared to 5 year average			6

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV
* House sales data includes Bay of Plenty and Waikato

Households in the Waikato are the least confident in the country about their region's economic future. They are also feeling less confident about their own employment prospects despite falling unemployment rates. In part, this reflects uncertainty about future wage growth, especially in key sectors such as agriculture, forestry and manufacturing.

This lack of confidence is reflected in a number of indicators. Despite relatively strong population growth and falling unemployment, retail sales have dipped, although this comes after a number of quarters of consecutive growth. The key driver here has been a drop in tourism – guest nights have grown strongly over the last couple years but have edged lower for much of 2017. Passenger vehicle sales have also pulled back, but the growth trajectory still remains a positive one. The same can be said for commercial vehicle registrations which continue to grow, albeit at a slower pace than before, possibly reflecting the impact of weakening commodity prices on the agriculture and forestry sectors.

The housing market in the region has softened, and the number of house sales has fallen steadily since September 2015. House prices have also cooled, much in line with the experience elsewhere in northern New Zealand. However, with population pressures building, boosted by net migration, residential building consents have continued to grow.

The outlook for the region

Low levels of confidence exhibited by households in this region are a little surprising. Although there has been a dip in most indicators of economic activity, this comes after a long run of positive results.

That said, economic activity in the region is likely to slow. Key to this will be population growth which is expected to ease as net migration falls. This is likely to result in a slowdown in residential building activity and a further weakening in house prices, which in turn will dampen spending in the region.

Also key is what happens in the agricultural sector. Forecast prices for logs and dairy suggest leaner times ahead for the Waikato, although their impact could be softened if the New Zealand dollar weakens.

Government policies are also likely to come into play. The possible inclusion of agriculture within a broader emissions trading system, water pricing issues and the possibility of a capital gains tax is likely to impact on confidence in the sector already feeling the effects of weaker commodity prices. This could result in more farm sales in the region and lower farm prices. We have noticed a plethora of farms for sale and few buyers in the market, which might be a sign of lower farm prices ahead. That would be another blow to confidence in the region.

Despite having tracked lower in 2017, tourism could be an area of growth, especially if weaker economic conditions generally prompt more New Zealanders to holiday at home rather than abroad. The region has a relatively low reliance on international tourism but could still benefit from an expected increase in foreign arrivals looking to take advantage of a weaker New Zealand dollar.

Wellington

Conditions in Wellington have largely remained steady, although there is a slightly downbeat tone with fewer indicators achieving positive results rather than negative ones. Unlike most other regions, activity in the region is also slightly down on the same period last year, although it's still significantly above the 5 year average. A marginal deterioration in economic activity is expected over coming quarters despite a possible expansion of public sector activity in the region.

		Compared to	
Wellington	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	26.4	30.3	17.7
Regional employment confidence	102.8	102.8	102.6
Unemployment rate (s.a.)	4.9%	5.0%	5.5%
Retail sales ($m, s.a.)	2,193	2,211	2,004
Passenger vehicle regos (s.a.)	5,698	5,619	4,875
Commercial vehicle regos (s.a.)	1,316	1,252	907
Guest nights (000, s.a.)	763	798	733
New dwellings consented (s.a.)	652	619	433
House sales (s.a.)	2,010	2,213	2,149
House price change, annual (s.a.)	13.3%	33.5%	7.4%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			7

Source: Westpac, McDermott Miller, Stats New Zealand, NZTA, QV

Households in Wellington were slightly less positive than they have been about the region's economic future and are not particularly confident about their own employment prospects going forward. A disproportionate number of people in the region do not think they would be getting a salary increase in the near future,

Recent population gains, rising house prices, declining unemployment rates, higher incomes and increasing construction activity have all supported activity in the region. These factors are also likely to have helped retail sales, which have grown consistently over a period of time. However, retail sales have recently pulled back, a sign that a recent softening in the housing market is already weighing on household spending.

Tourism numbers continue to show positive gains, although recent evidence suggests a softening with guest nights having fallen in the latest quarter. This decrease was largely due to a fall in domestic guest nights, which more than offset an increase in international guest nights.

The housing market in the region has softened with the number of houses sold having declined for a number of quarters. House price inflation has also cooled, though it still remains positive. However, in an environment characterised by existing housing shortages, residential building consents have increased.

The outlook for the region

With net migration forecast to slow, population gains in the region are set to ease. This is expected to reduce pressure on residential building activity, although existing housing shortages will continue to support home building in the region for some time to come. The intention of the new government to extend the 2-year "bright line" test to 5 years for taxing capital gains, the removal of negative gearing and a ban on foreign buyers are likely to dampen house prices, with knock-on effects for spending.

That said, spending is still likely to grow, albeit as slower pace than before. The region should continue to benefit from low unemployment, mainly because of the public sector which could grow in size under the new government.

Wellington is not a major tourism region and has not been able to take advantage of the nationwide tourism boom. The region is unlikely to benefit substantially from an expected increase in international tourists to the country. The same applies to domestic tourism.

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